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C O U N C I L   C O M M U N I C A T I O N

TO: THE CITY COUNCIL  
FROM: THE CITY MANAGER'S OFFICE

COUNCIL MEETING DATE  
MAY 2, 1990

SUBJECT: AUTHORIZE SELF-INSURING OF CITY'S LONG-TERM DISABILITY PROGRAM

PREPARED BY: Assistant City Manager

RECOMMENDED ACTION: The City Council authorize self-insurance of the City's long-term disability insurance program.

BACKGROUND INFORMATION: The City currently pays a premium of 1.01% of payroll for long-term disability insurance coverage for non-public safety employees to Standard Insurance of Oregon. This level of coverage provides two-thirds of the first \$2,250 of an employee's gross monthly earnings and one-half of the next one thousand earned per month (a maximum total benefit of \$2,000 per month). While the City of Lodi self-insures and self-administers the first two years of coverage, continuing cases are turned over to Standard Insurance, which administers and indemnifies claims thereafter.

Since most long-term disability insurance claims are of only a short duration, the majority of program expenses are being directly paid by the City of Lodi and not Standard Insurance, even though we are paying approximately \$6,100 per month to Standard Insurance for coverage. Our claims history indicates that we have had only five claims in calendar year 1988, five claims in 1989, and no claims in 1990 to date. Only two of these claims, both in early 1988, were referred to Standard Insurance for a continuation of coverage. Also, City of Lodi claims expenses for 1989 and 1990 to date have only been \$13,351 while we have paid \$91,313 in long-term disability insurance premiums to Standard Insurance.

Currently there is only one long-term disability claim being handled by the City of Lodi. However, it will be another year and one-half before this claim would be referred to Standard Insurance for continuation. Hence, Standard Insurance will not incur any additional benefit expenses during the next one and one-half years since no new City of Lodi claims will be eligible for coverage.

Given our excellent claims record and low rate of self-insured benefit expenses, it would be prudent to self-insure the long-term disability program. This would be carried out by continuing to fund the long-term disability program at the 1.01% of payroll level and build up a fund excess to cover benefit costs. At current rates this would provide over \$73,000 per year to fund the long-term disability program. We would proceed by maintaining the long-term disability program in its current form, which would include referrals for vocational rehabilitation following two years of disability in order to assist employees in returning to employment as soon as possible. Due to our low case load, the City would also continue to self-administer its own claims. This would also be beneficial in terms of minimizing program costs.

Authorize self-insuring of City's Long-Term Disability Program

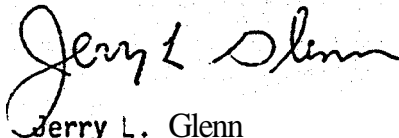
May 2, 1990

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Another advantage of self-insuring is that it could provide protection against sudden premium increases, which have occurred before and resulted in the City increasing its self-insured period from one-half year to two years. Although the City could potentially face a higher volume of claims, the risk is balanced by the benefit maximum of \$2,000 per month for each disabled employee and the fact that benefits are offset by workers' compensation temporary disability, sick leave, and Public Employees Retirement System (PERS) retirement benefits.

We have discussed this with our agent of record, William McCormack of Delta Benefit Plans, and he regards this as a prudent action.

Respectfully submitted,



Jerry L. Glenn  
Assistant City Manager

JLG/EW:br

Attachment

RESOLUTION NO. 90-66

A RESOLUTION OF THE LODI CITY COUNCIL  
AUTHORIZING THE CITY OF LODI'S SELF-INSURANCE OF THE  
CITY'S LONG-TERM DISABILITY INSURANCE PROGRAM

RESOLVED, that the Lodi City Council hereby authorizes the City of Lodi's self-insurance of the City's long-term disability insurance program.

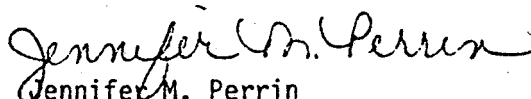
Dated: May 2, 1990

I hereby certify that Resolution No. 90-66 was passed and adopted by the Lodi City Council in a regular meeting held May 2, 1990 by the following vote:

Ryes: Council Members - Hinchman, Olson, Pinkerton, Reid and Snider (Mayor)

Noes: Council Members - None

Absent: Council Members - None

  
Jennifer M. Perrin  
Deputy City Clerk